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SUBJECT: GOA ANNOUNCES IT WILL BUILD BROADBAND NETWORK
ITSELF, AND PLANS REG REFORM

REF: A: 08 CANBERRA 1302 B: CANBERRA 296 C: 08
CANBERRA 401

¶1. (SBU) Summary: Today PM Kevin Rudd in a surprise move announced that the GOA would set up a company to build the National Broadband Network, at a cost of up to A\$43 billion (US\$30 billion), rejecting all five commercial tenders. The GOA will allow up to 49% private equity in the new company it will form to build and run the NBN, and plans to sell down its interest in the company within five years after the network is built and operational. It will be funded by the Building Australia Fund and "Aussie Infrastructure Bonds." This will be Australia's biggest infrastructure project ever. In addition, the GOA announced it was considering how to change the existing regulatory regime to improve competition and strengthen consumer safeguards, which an industry insider told Embassy would be the prelude to imposing structural separation on Telstra. End summary.

BROADBAND - WE,LL DO IT OURSELVES

¶2. (U) Today Prime Minister Kevin Rudd himself announced the GOA would set up a new company to build and operate the National Broadband Network, at a projected cost of up to A\$43 billion (US\$30 bn) over eight years. This is a ninefold increase in GOA funding, set at A\$4.7 billion in the initial tender (ref C). In so doing, the GOA said that on the recommendation of a panel of experts, it had rejected all of the bids as failing to "offer value for money for Australian taxpayers". The panel noted that the global financial crisis had a "significant impact" on the process - perhaps demonstrating doubt that the five bidders would not be able to raise the tens of billions of dollars needed to construct the NBN.

¶3. (U) In the GOA release, they emphasized that they intended to divest itself of the new company (yet to be named); the GOA said it intends to sell its interest five years after the NBN is built and fully operational; construction could take eight years to complete. The GOA plans to fund it via the Building Australia Fund (ref A), and by selling "Aussie Infrastructure Bonds". It also anticipates significant private sector involvement, but the GOA will retain a majority stake. The GOA emphasized the jobs angle. This project will at its peak employ 37,000, per the GOA, and on average should provide 25,000 jobs.

SPECS

¶4. (U) The planned NBN will use optical fiber to the premises (FTTP), which will provide minimum speeds of 100 megabits/second to those living in towns of 1000 or more; that will cover 90% of Australians. Next generation wireless and satellite will deliver 12 megabits/second service to the remaining 10% in remote parts of Australia. Fiber optic transmission links will connect Australia's capital cities and major regional and rural centers. It will be a wholesale-only open access broadband network which will be built by a company "at arm's length from Government", and will be expected to roll out simultaneously across Australia.

¶5. (SBU) By going with FTTP, NBN will completely bypass Telstra's existing copper wire network, and possibly render QTelstra's existing copper wire network, and possibly render technologically obsolete Telstra's plans to upgrade its internet services over wireless and cable TV networks.

AND REGULATORY REFORM, TOO

¶6. (U) The second major announcement, released in conjunction with the NBN, said the GOA will seek public comment by June 3 on ways to improve telecom regulation to make it work more effectively for the interests of consumers. Minister for Broadband, Communications, and the Digital Economy Stephen Conroy said the GOA would consider a wide range of options for reform. The "Regulatory Reform for 21st Century Broadband" paper included as possible options for reform:

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streamlining regulatory processes to allow the Australian Competition and Consumer Commission (ACCC) greater pricing power for companies wanting access to Telstra's network; strengthening the ACCC's power to stop anti-competitive conduct by allowing it to impose binding rules of conduct; improving universal access arrangements for telephony.

¶7. (U) The announcement said the GOA would consider "promoting greater competition across the industry, including through measures to better address Telstra's vertical and horizontal integration, such as functional separation."

EARLY REACTIONS

¶8. (SBU) Reactions from the telecom sector were largely positive. SingTel subsidiary Optus, despite being passed over, welcomed the GOA's plan. The Competitive Carriers Coalition called the GOA plan "visionary" and a "leapfrog" in technology. Their executive director David Forman told embassy that the NBN plan and the call for regulatory reform were "cracker". Opposition leader Malcolm Turnbull, however, said the NBN plan was not commercially viable, and said households would have to pay much more for broadband. ACCC Chairman Graeme Samuel also deemed the NBN decision to be a "good move" that would take Australia "through the 21st century."

¶9. (SBU) Comment: The GOA decision to take on the job of building the NBN itself was a surprise, despite late rumors that this might happen. It seems unlikely the Rudd Government would have gone through a year of effort and drama surrounding the tender process (ref B and previous) if it had intended all along to build the NBN itself - and on a very different technological and financial basis. We believe the panel of experts was correct: the impact of the global financial crisis on the ability of bidders to raise billions in capital was likely substantial. The announcement of a review of regulatory policy was less of a surprise; we had been hearing rumors of such a move in recent weeks. Today's news was a mixed bag for dominant player Telstra. Although its copper wire network will be bypassed, at least it does not face a private sector competitor as the owner-operator of

a rival network, and there is nothing to prevent Telstra, already the top ISP in Australia, from playing in the new NBN game as an investor or as a retail provider. But it must be deeply unhappy at the options for reform included in the GOA's regulatory reform paper, in particular the possibility of functional separation, and its existing copper network - its biggest asset - faces being rendered technologically obsolete within a few years. End comment.

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